

MOTOR VEHICLE TAXES

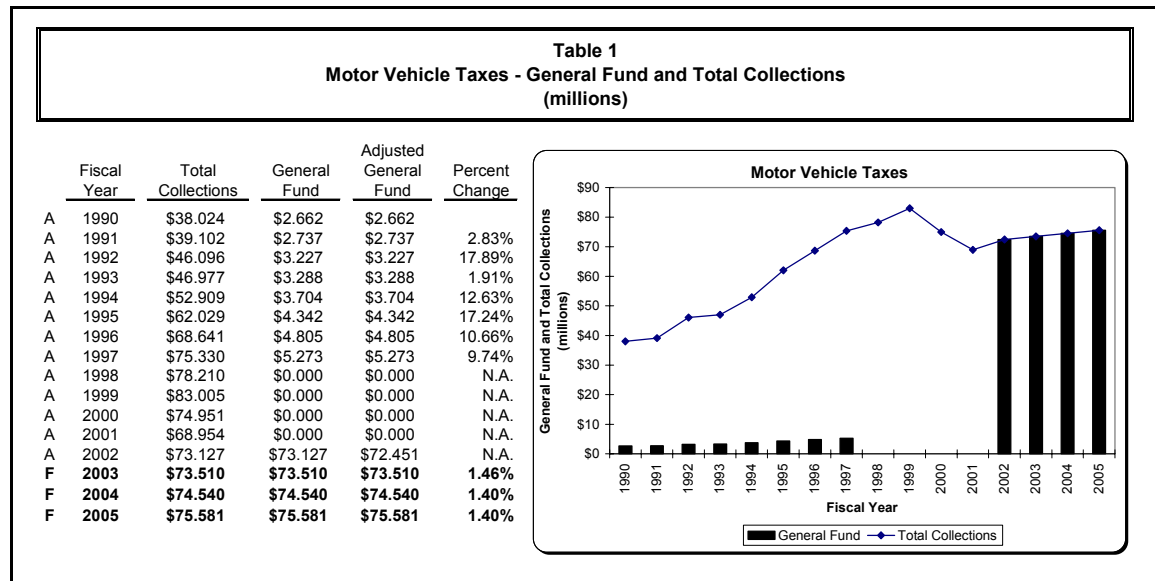
General Fund Revenue Estimate

Revenue Description

Titles 61 and 23, MCA, provide for multiple fees in lieu of taxes on motor vehicles. Heavy vehicles weighing more than 1 ton, motor homes, trailers, travel trailers, watercrafts, motorcycles, snowmobiles, campers, and off-highway vehicles are charged a fee in lieu of tax based on one or a combination of the following criteria: age, weight, or size. As of January 1, 2001, light vehicles are charged a registration fee (fee in lieu of tax) based on the age of the vehicle.

Historic and Projected Revenue

Table 1 shows historic and projected general fund revenue and total tax collections from motor vehicle taxes.



Fiscal 2002 general fund revenue as shown on SABHRS includes an estimated accrual that is overstated by \$0.676 million due to a double counting of revenue. For revenue estimating purposes, the fiscal year-end general fund revenue from this source is adjusted to \$72.451 million.

There have been three major changes through legislation in the taxation of motor vehicles in recent years. The three changes are related to tax rates. The first major change is SB260 (1999). This bill reduced the *ad valorem* tax on light vehicles from 2% to 1.4%, beginning January 1, 2000. This explains the large decrease in total collections in fiscal years 2000 and 2001, as shown in Table 1.

The second change is HB540 (1999) and HB4 (2000 Special Session). These bills eliminated the *ad valorem* tax and the 1.5% “new car” sales tax beginning January

1, 2001, and replaced these two *ad valorem* taxes with a three-tier flat fee based on the age of the vehicle. The annual revenue from the three-tier flat fee is less than revenue from the two *ad valorem* taxes.

The third change is HB247 (2001). This bill reduced the fee in lieu of tax on heavy vehicles by 50% over a 3-year period beginning January 1, 2003.

There has also been a major change in the distribution of motor vehicle tax revenue through HB124 (2001). Prior to fiscal 2002, the fees in lieu of taxes on motor vehicles were distributed, as shown in Table 2.

| Table 2 Vehicle Tax Distribution Prior to HB124 (2001) | | | | | | | | | | |
|---|---------------------------|---------------------------|-----------------------|--------------------|------------------------|--------------------------|--------------------------|---------------------------|----------------------|----------------------------|
| VEHICLES | (1) Highway Account | (2) District Courts | (3) DofAg. SSRA | (4) FWP SSRA | (5) Univ. 6-mill | (6) Assump. 9-mill | (7) State 95-mills | (8) State 1.5-mills | (9) GF General | (10) Local Gov Mills |
| Watercrafts | No | No | No | 20% | Yes | Yes | Yes | Yes | No | Yes |
| Snowmobiles | No | No | No | No | Yes | Yes | Yes | Yes | No | Yes |
| Off-Highway | No | No | \$1/vehicle | No | Yes | Yes | Yes | Yes | No | Yes |
| Motorhomes | New Only | No | No | No | Yes | Yes | Yes | Yes | No | Yes |
| Motorcycles/Quads | New Only | No | No | No | No | No | No | Yes | No | Yes |
| Heavy Vehicles | New Only | No | No | No | Yes | Yes | Yes | Yes | No | Yes |
| Trailers | No | No | No | No | Yes | Yes | Yes | Yes | No | Yes |
| Travel Trailers | No | No | No | No | Yes | Yes | Yes | Yes | No | Yes |
| Campers | No | No | No | No | Yes | Yes | Yes | Yes | No | Yes |
| Light Vehicles | New Only | 10% | No | No | No | No | No | Yes | No | Yes |

(1): Highway restricted state special revenue account
 (2): State special revenue account to fund district courts
 (3): State special revenue account to the credit of the Department of Agriculture
 (4): State special revenue account to the credit of the Department of Fish Wildlife and Parks
 (5): University System 6-mill account
 (6): State assumption of public assistance 9-mill account
 (7): State 95-mills
 (8): State 1.5-mills
 (9): General fund
 (10): Local government mills

Beginning in fiscal 2002, vehicle taxes are distributed to the state general fund. From fiscal 1998 through fiscal 2001, the state general fund did not receive revenue from vehicle taxes.

General fund revenue is estimated to increase by 1.46% in fiscal 2003, and 1.40% annually in fiscal years 2004 and 2005.

Forecast Methodology and Projection Calculation

There are three steps in estimating general fund revenue from motor vehicle taxes: 1) forecast gross revenue without HB247 (2001) impact; 2) forecast the HB247 impact; and 3) subtract the HB247 impact from gross revenue without the HB247 impact to derive general fund revenues.

Step 1: Forecast Gross Revenue without HB247 (2001) Impact

Fiscal 2003 gross revenue without the HB247 impact from motor vehicle taxes is estimated using year-to-date information, Department of Justice (DOJ) motor vehicle databases for calendar years 2000 and 2001, and a national forecast of unit sales of new automobiles. Information from the Department of Justice motor vehicle databases for calendar years 2000 and 2001 indicates that 23.2% of total vehicle fee collections during the fiscal year are collected during the months of July, August, and September. Dividing total collections of \$17,478,658 during fiscal year 2003 for these months by 0.232 yields an estimate for total collections (collections prior to adjustment) in fiscal year 2003. This results in a growth rate of 4.2% over fiscal 2002. This growth rate is then reduced by 50% to 2.1% to take into account the current national forecast of unit sales of new automobiles, which are forecast to decrease in fiscal 2003 (DRI-WEFA). Motor vehicle taxes gross revenue without the HB247 impact is estimated to be \$73.972 million in fiscal 2003.

Motor vehicle taxes gross revenue without the HB247 impact is forecast to increase by the same growth rate in fiscal 2003 of 2.1% for fiscal years 2004 and 2005. Motor vehicle taxes gross revenue is estimated to be \$75.526 million in fiscal 2004 and \$77.112 million in fiscal 2005, as shown in Table 3.

| Table 3 | | | |
|---|------------------------|--------------------------|---------------------------|
| Motor Vehicle Taxes | | | |
| Gross Revenue without HB247 Impact | | | |
| Fiscal Years 2002 through 2005 | | | |
| | <u>Fiscal Year</u> | <u>Gross Revenue</u> | <u>Percent Change</u> |
| A | 2002 | \$72,451,000 | |
| F | 2003 | \$73,972,471 | 2.1% |
| F | 2004 | \$75,525,893 | 2.1% |
| F | 2005 | \$77,111,937 | 2.1% |

Step 2: Forecast HB247 (2001) Impact

There are three steps in estimating the HB247 impact.

The first step is to estimate revenue from taxes on heavy trucks without HB247. Information from the DOJ motor vehicle databases for calendar years 2000 and 2001 indicate that, on average, heavy trucks pay 4.08% of total motor vehicle taxes. The forecast of taxes from heavy trucks in each fiscal year without HB247 is simply this percentage times total taxes from all motor vehicles, as shown in Table 3.

The second step is to estimate by how much HB247 reduces these taxes. Information from prior years indicates that 92% of all taxes paid on heavy trucks is paid between January 1 and June 30 of each fiscal year. HB247 takes effect January 1, 2003. In calendar year 2003, HB247 reduces taxes by 16.7% of what they otherwise would have been; in calendar year 2004, HB247 reduces taxes by 33.3% of what they otherwise would have been, and in calendar year 2005, HB247 reduces taxes by 50% of what they otherwise would have been. Consequently, the reduction factor for fiscal year 2003 is 15.3% (92% of total tax collected is reduced by 16.7% for a reduction of 15.3% for the entire fiscal year).

In fiscal year 2004, the 8% of total fiscal year taxes that are collected between July 1, 2003 and December 31, 2003 are reduced by 16.7%; and the 92% of total taxes collected during the fiscal year are reduced by 33.3%. This results in a reduction factor of 32%.

Finally, in fiscal year 2005, the 8% of total fiscal year taxes that are collected between July 1, 2004 and December 31, 2004 are reduced by 33.3%; and the 92% of total taxes collected during the remainder of the fiscal year are reduced by 50%. This results in a reduction factor of 48.7%.

The last step is to apply the reduction factor to total estimated taxes from heavy trucks without HB247, to determine the revenue impact of HB247, as shown in Table 4.

| Table 4 Estimated HB247 (2001 Session) Revenue Impact | | | | | | |
|--|---------------|---|---|---|------------------------|------------------------------|
| -----Estimated----- | | | | | | |
| Fiscal Year | Gross Revenue | | Heavy Revenue as % of Total Collections | | Heavy Vehicle Revenue | |
| | | | | | HB247 Reduction Factor | HB247 Revenue Impact |
| 2003 | \$73,972,471 | X | 4.08% | = | \$3,017,039 | X 15.3% = \$462,613 |
| 2004 | \$75,525,893 | X | 4.08% | = | \$3,080,397 | X 32.0% = \$985,727 |
| 2005 | \$77,111,937 | X | 4.08% | = | \$3,145,085 | X 48.7% = \$1,530,608 |

The HB247 revenue impact is estimated to be \$462,613 in fiscal 2003; \$985,727 in fiscal 2004; and \$1,530,608 in fiscal 2005.

Step 3: Calculate General Fund Revenue

General fund revenue from the motor vehicle taxes is calculated by subtracting the HB247 impact in Table 4 from gross revenue in Table 3. Table 5 shows the general fund revenue for motor vehicle taxes for fiscal years 2003 through 2005.

General fund revenue over the forecast period is \$73.510 million in fiscal 2003, \$74.540 million in fiscal 2004, and \$75.581 million in fiscal 2005.

| Table 5 General Fund Revenue Calculations Fiscal Years 2003 through 2005 | | | |
|---|---------------|---------------|-----------------------|
| Fiscal Year | Gross Revenue | HB247 Impact | General Fund Revenue |
| 2003 | \$73,972,471 | - \$462,613 | = \$73,509,858 |
| 2004 | \$75,525,893 | - \$985,727 | = \$74,540,166 |
| 2005 | \$77,111,937 | - \$1,530,608 | = \$75,581,329 |

Data Sources

SABHRS Report MTGL0109, the Department of Revenue's model, the Department of Justice staff and databases, and the 2003 Biennium Legislative Fiscal Report provides collections and general fund data.